

THE IMPACT OF IMPACT FEES IN INDIANA

The Emergence of Community Growth Management in Indiana

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Several northern Indiana communities have elected to establish, or are considering the establishment of an impact fee program as provided by State enabling legislation enacted in 1991 (see *PZN* April 1992). Technical plans have been prepared, costs for new municipal infrastructure have been calculated, new growth projected and impact fees, to be paid by developers, determined for the proportion of the infrastructure costs serving projected new growth.

The reaction to the use of impact fees in, at least, one community has been a "qualified" positive. They have received support of the real estate development community. Impact fees, as used by these communities, demonstrate how this form of community revenue can be used to stimulate sound land planning and growth management consistent with the community comprehensive plan.

In the following paragraphs, a brief description of experiences of the Town of Chesterton is provided. A discussion of the process of enacting impact fees and the reactions of various interest groups is also provided. A summary of the fee schedule and the impact of the fee on the price of a typical home sold in 1993 concludes this article.

Chesterton, Indiana

The town of Chesterton is located on I-94 about mid-way between Illinois and Michigan. Chesterton is bordered, to the North by the Dunes National Lake Shore. It is connected to the Chicago, Illinois area by a 45 minute drive or a 45 minute commute on the last inter-urban electric passenger train rail line. Because of these attributes, the Town has been "discovered" as one of the most desirable locations in northern Indiana to live.

The Town had a 1990 population of 9,124 which was an increase from the 1980 count of 593 persons. On the average, 87 new homes have been built in Chesterton each of the past three years. During the

next ten years, population is estimated to grow between 1,384 and 3,109 people. The Town can be characterized as an older rural Town faced with the prospect of rapid growth due to suburbanization pressures emerging from the metropolitan Chicago, northern Indiana urban area. Chesterton contains 6.7 square miles of land; of which 56% is undeveloped. The Comprehensive Plan calls for annexation of 6.3 square miles of land area in the future.

owned infrastructure. An advisory committee recommended levels of service desired in the future, based on study of existing conditions and needed infrastructure to service future growth.

The Zone Improvement section of the Comprehensive Plan divided the Town into seven zones. Preliminary engineering cost estimates were made for the infrastructure needed to provide recommended levels of service required in the Town to achieve

Table 1
Projected Growth
Town of Chesterton, Indiana
1993-2002

Zone & Year	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	Total
One											
- Res	0	20	4	8	4	8	4	4	4	0	56
- Com	10.0	0	10.0	0	10.0	0	0	0	0	0	30.0
Two											
- Res	0	58	12	54	26	58	8	43	11	0	270
- Com	25.0	25.0	25.0	25.0	25.0	25.0	25.0	25.0	25.0	25.0	250.0
Three											
- Res	0	0	0	0	3	0	0	0	0	0	3
- Com	0	3.5	20.0	3.5	0	23.5	0	3.5	20.0	3.5	77.5
Four											
- Res	0	0	30	12	40	16	20	16	20	0	154
- Com	0	0	25.0	25.0	25.0	25.0	25.0	25.0	25.0	25.0	200.0
Five											
- Res	0	0	2	0	0	1	0	0	0	0	3
- Com	0	0	1.5	0	1.5	0	0	2.0	0	0	5.0
Six											
- Res	0	0	0	0	0	0	0	0	0	0	0
- Com	3.75	3.75	3.75	3.75	3.75	3.75	3.75	3.75	3.75	3.75	37.5
Seven*											
- Res	0	78	48	74	73	83	32	63	35	0	486
Total-Com	38.75	32.25	85.25	57.25	65.25	77.25	53.75	59.25	73.75	57.25	600.00

*Note: the seventh zone includes all growth since it encompasses the total Town.

Res= Residential Dwelling Units

Com= Commercial/Industrial floor space in thousands of square feet.

ABOUT THE AUTHORS

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Chesterton's impact fee program began as a means to identify the cost for infrastructure needed to accommodate projected new growth and to provide an additional funding source for the payment of Town responsibilities. The Comprehensive Plan was updated over a one year period and included a detailed study of the current level of services provided by municipally

"build out" as described in the Comprehensive Plan. Costs were estimated for a ten year period for which impact fees can be charged in Indiana.

Cost for Town supplied infrastructure to accommodate the "build out" of the Town was estimated at \$13.9 million dollars and \$5.1 million for the ten year impact fee period. The distribution of these costs, by

Table 2
Infrastructure Improvement Costs
Town of Chesterton, Indiana
1993-2003

Zone	Water	Sewer	Drainage	Roads	Parks	Total
One	\$0	\$0	\$0	\$0	\$0	\$0
Two	\$264,132	\$0	\$405,168	\$302,207	\$0	\$971,507
Three	\$0	\$0	\$0	\$0	\$0	\$0
Four	\$1,227,050	\$1,100,366	\$559,314	\$127,596	\$0	\$3,014,326
Five	\$0	\$0	\$0	\$0	\$0	\$0
Six	\$0	\$0	\$0	\$0	\$0	\$0
Seven	—	—	—	—	\$1,196,000	\$1,196,000
Total	\$1,491,182	\$1,100,366	\$964,482	\$429,803	\$1,196,000	\$5,181,833

zone, for the impact fee period is shown in Table 1.

Table 2 indicates that the town of Chesterton will need to fund \$5.1 million of infrastructure expenses during the next ten years and an additional \$7.5 million to accommodate build out of the town (expressed in 1993 dollars) to provide the levels of service recommended in the Comprehensive Plan.

Based on the historic pattern of income received by the town of Chesterton, it was determined that historic revenue sources would contribute 32.8 per cent of the funds necessary for funding the needed infrastructure. These funding sources include: 1) general funds appropriated for capital expenditures by the Town Council, 2) receipt of state and federal grants for capital expenditures, 3) a portion of "user fees" allocated for capital expenditures and 4) the proportion of motor fuel and vehicle licenses fees allocated for capital expenditures. Expenses represent the annual estimated costs for the construction of infrastructure required to meet the level of services established in the Comprehensive Plan. Revenue is compared to expenses to determine if an overage or shortfall of revenue is expected. The cumulative difference is calculated to illustrate the overall effect for the ten year period.

As shown in Table 3, this financial analysis demonstrates the town of Chesterton will need to develop additional funding for the implementation of the capital improvements as recommended in the Comprehensive Plan. Alternative approaches to balance the financial shortfall include limiting new residential and commercial/industrial development in the Town or reducing the level of services the Town will supply. At the time of writing of this article the Town advisory committee, Planning Commission and Council are in process of discussing alternatives and other means of controlling growth to ensure future fiscal stability for the Town in the future.

One of the revenue sources considered in the analysis is impact fees. As indicated earlier, impact fees can provide about 50% of the funds needed for the capital improvements noted in the Capital Improvements Plan.

The Indiana Impact Fee Statute requires the use of reasonable estimates to produce a fair and proportionate impact fee. The "Rational Nexus Test" brought forward by a series of court rulings suggest the following criteria for determining fair and proportionate impact fees:

1. There must be a reasonable connection between the need for additional facilities and growth resulting from development.
2. Fees charged must not exceed a proportionate share of the cost incurred.
3. There must be a reasonable connection between the expenditure of fees collected and the benefits received by the fee payer.

The Indiana Statute that enables communities to impose impact fees closely links the calculation of the fees to a fresh comprehensive plan. The comprehensive plan's estimates on population growth and the housing units required to meet that growth are fundamental to impact fee calculations. A planning based methodology is then applied as follows:

estimates of yearly requirements of new housing units and commercial and industrial floor space.

These growth and location patterns are then used by the town engineer to determine the various infrastructure needed to accommodate this new growth, and to calculate the costs of these improvements. These determinations and cost estimates are then approved by the community's Impact Fee Advisory Committee, required by the State Statute and appointed by the Town Council. This committee also determines and recommends to the Town Council the community level of service standards to be used for the various infrastructure types in each impact zone.

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Another feature of the Indiana Impact Fee Statute is that it allows the community to be divided into a series of impact zones. These zones are useful in grouping together geographic areas of the community that are contiguous and share common features such as transportation access, in-ground infrastructure mains, real estate de-

Table 3
Revenue and Capital Expenses Analysis
for the Ten Year Period
1993-2004
Town of Chesterton, Indiana

Year	Revenue	Expenses	Difference	Cumulative
1	\$188,045	\$0	\$188,045	\$188,045
2	\$295,527	\$138,000	\$157,527	\$345,572
3	\$266,744	\$2,844,310	(\$2,577,566)	(\$2,231,994)
4	\$299,509	\$615,480	(\$315,971)	(\$2,547,965)
5	\$293,284	\$601,207	(\$307,923)	(\$2,855,888)
6	\$315,271	\$496,064	(\$180,793)	(\$3,036,681)
7	\$233,248	\$397,716	(\$164,468)	(\$3,201,149)
8	\$282,333	\$0	\$282,333	(\$2,918,816)
9	\$240,999	\$89,056	\$151,943	(\$2,766,873)
10	\$191,459	\$0	\$191,459	(\$2,575,414)
Total	\$2,606,419	\$5,181,833	—	—

Using this information, the planning consultant and the town engineer translate these estimates into patterns of growth and density on the land-use map, determining

development patterns, and land uses. These zones are determined jointly by the planning consultant, town engineer and the local planning commission.

The fees are then calculated using the cost estimates and estimated "new" users such as numbers of single and multi-family dwelling units, units of commercial and industrial floor space, vehicle trip ends, and population increases for each impact zone, as follows:

Drainage: Cost per acre converted to cost per residential unit or unit of commercial/industrial floor space.

Roads and Bridges: Cost per vehicle trip end unit multiplied by the trip generation standards for each land use.

Parks and Recreation: Cost per person converted to cost per residential use using local experience population density figures.

Water: Cost per gallon unit supplied to the user multiplied by the locally adopted level of service per land use in gallons per day.

Sanitary Sewer Systems: Cost per gallon unit multiplied by the locally adopted level service standard per land use in gallons per day.

Once the fees are calculated, they are adjusted for the following:

Nonlocal Revenue: Any funds received to offset the cost of the improvements from any source other than the local community. These include federal and state grants, motor vehicle and fuel taxes funds, etc.

Impact Deductions: Credits representing amounts of money adjusted to present value to be paid over time by the users through local taxation in support of the specific improvements covered by the impact fees.

Examples of impact fees calculated for the Town of Chesterton are illustrated below and in Table 4.

- Park and Recreation Impact Fee per Multi-family Dwelling: \$582.29

For a general comparison, it appears that impact fees will yield at least 50% more revenue than the current policy of negotiated exactions.

Barbara Miller, Executive Officer of the Porter County (Indiana) Builders Association states that:

"The Porter County Builders Association supports the concept of impact fees imposed to pay for the infrastructure needed to service new development as long as the fees are developed as set out in the Indiana Statute and the communities collecting those fees install the infrastructure on a timely basis."

In 1993, according to the Home Builders Association and Town building records, 94 new homes were built in the Town of Chesterton. The average sale price of a new home built in 1993 is estimated by the Town Building Office at between \$150,000 and \$175,000. The sum of all impact fees for a new home would range between \$1,525.00 and \$1,625.00 or approximately 1% of the price of a new home.

According to Joel Carney, President of the Town Planning Commission,

"we were surprised at the conclusion of the planning process and the calculation of the cost of the impact fees. We thought the fees would severely impact the price of a new home. We were pleasantly surprised the fees were within a reasonable cost range. We are now more concerned with the total cost of providing infrastructure to the Town of Chesterton in the future. While we can assess new growth their fair share of the

1. While all comprehensive plans detail future land usage within a community, most plans do not provide a preliminary estimate of the costs to provide necessary infrastructure and assess methods to fund the costs. This information is necessary to enable a community to begin analyses of the desirability of accommodating or restricting new development.

2. There is a need to provide specific information on the current and future levels of services provided by Town infrastructure. This analysis leads into a discussion of the level of services desired by the community, the level of services which can be financed by the community and the level of services which will be found acceptable to the community. In almost all communities, the level of services will be different and have a corresponding different cost.

3. The planning process begins to account for the costs of infrastructure attributable to new growth as well as that proportion of costs that need to be assessed to the existing residents. For example, when Chesterton desired a much higher level of traffic flow in the future, costs doubled, for new growth and for existing residents. Chesterton decided to reduce the desired level of service to a more financially responsible level since the likelihood of funding the higher level of service was remote.

4. The discussion of the location of future and the phasing of infrastructure construction to accommodate an "economic and efficient development process" of growth supported by municipal infrastructure, leads to establishment of a "growth management program" within the community. The impact fee process is a model for the establishment of a growth management system where impact fees is one of several components of the financial planning necessary to implement the comprehensive plan.

5. While impact fees are viewed as a "general" solution for funding infrastructure, impact fees only address a portion of the total costs. Funding of the remainder of the costs is the responsibility of the Town and ultimately, residents of the Town. Further, impact fees do not provide any funding for operational costs for the additional services which will be required by new growth.

6. Experience gained from the process of organizing all the planning studies, engineering cost estimates, financial analyses and producing the required three documents (Comprehensive Plan Update, Zone Improvement Plan and Impact Fee Ordinance and schedule of fees) indicated the process is time consuming, complex and difficult to effectively establish; oftentimes more strenuous than part-time appointed officials wish to tolerate. This complexity may negate the effectiveness of this "tool" by limiting the number of communities wishing to undertake the preparation process. □

**Table 4
Road and Bridge Impact Fees**

Land Use Zone	Single Family Detached Unit	Apartment Unit	Commercial/ 1,000 Sq. Ft.	Industrial/ 1,000 Sq. Ft.
One	\$129.69	\$79.60	\$787.20	\$55.89
Two	\$106.14	\$66.37	\$656.40	\$46.60
Three	\$33.31	\$20.45	\$202.20	\$14.36
Four	\$50.12	\$30.76	\$304.20	\$21.60
Five	\$81.75	\$50.17	\$496.20	\$35.23

* No impact fees were due for zones six and seven.

Drainage Impact Fees

- Drainage Impact Fee per Development Acre: \$1,699.10
- Drainage Impact Fee per Dwelling Unit: \$629.30
- Drainage Impact Fee per 1,000 Sq Ft. of Commercial/Industrial Gross Floor Area: \$111.45

Park and Recreation Impact Fees

- Park and Recreation Impact Fee per Person: \$277.28
- Park and Recreation Impact Fee per Single Family Dwelling: \$859.57

costs, we still have the difficult job of seeking funds to pay the 'general public' portion as well as assess current residents their proportion of the costs. It is realistic to discuss the conclusion that Chesterton may be 'as well off' not to grow in the future. Our Planning Commission has to take a long look at how fast and much growth we want and can afford."

Summary and Conclusions

There are a number of findings and conclusions which developed during the planning process: